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SUBJECT: ROMANIA'S TRANSPORTATION INFRASTRUCTURE: TAKING THE SLOW  
ROAD

Sensitive but Unclassified; not for Internet distribution.

#### SUMMARY

¶1. (SBU) While the Government of Romania (GOR) is painfully aware how large a problem Romania's inadequate infrastructure presents for sustaining future growth, improvements will be slow in coming. Project financing and management constraints continue to impede progress, with signs emerging that the country's decrepit, over-taxed road network is already becoming a hindrance to foreign investment. Political and business leaders alike hope that upcoming parliamentary elections will produce a renewed political consensus to press forward on what are admittedly very ambitious plans: 2,000 kilometers of new motorway by 2015, increased rail capacity, construction of a new airport in Bucharest, and improved transit on the Danube River. Romania's continued integration with the European Union can only proceed as quickly as development of these new road, rail, air, and water links will allow. End Summary.

"WE SHOULD HAVE STARTED TEN YEARS AGO"

¶2. (SBU) In an October 2 meeting with EconOffs, Ministry of Transport (MOT) State Secretary Barna Tanczos sketched out the GOR's ambitious plans -- some of which have been on the books for years -- for expanding Romania's outdated transport infrastructure. Tanczos admitted that Romania has moved much more slowly than some other countries in Eastern Europe, and is only now getting serious about projects "which we should have started ten years ago." Romania's rapid economic growth in recent years has overwhelmed the road network and magnified the disruptions caused by new construction on existing routes for which motorists have few alternatives. Tanczos was candid about constraints on MOT's capacity to fund and oversee so many projects, but insisted that Romania is making incremental forward progress.

BEATEN UP OVER BECHTEL

¶3. (SBU) When asked about Romania's single largest public works project -- the 400 kilometer, multi-billion euro Transylvania Motorway, being built by Bechtel -- Tanczos affirmed that Bechtel is meeting its contractual obligations and the Motorway is making visible progress, despite a steady stream of negative reporting in the Romanian press about its costs. When asked why the GOR was not more active in publicly defending the project from these constant attacks, Tanczos sounded the now-familiar (and somewhat disingenuous) complaint that the contract is an imperfect and disadvantageous one for the Government. Still, the GOR is determined to move forward even with an "imperfect deal" rather than risk the years-long delays that would result from re-tendering the project.

¶4. (SBU) At the same time, Tanczos admitted that one of Bechtel's consistent complaints, that of late payments and inadequate financing for the Motorway, is likely to continue. The EU will not

allow Romania to use EU structural funds for such a major project built by a U.S. contractor, he lamented. At the same time, external financing of any kind became more difficult after the Ministry of Economy and Finance (MEF) adopted new regulations in 2007 prohibiting other ministries from securing their own external financing. This must now be processed through MEF itself and the Ministry has refused to approve financing for the Motorway. The result is a painfully slow, pay-as-you-go construction scheme that must be supported out of current revenues, rather than completing the project more quickly through up-front financing and then spreading the cost out over 20-30 years. MOT is unable to guarantee a steady funding stream from MEF out of the central budget, where the Motorway must compete annually with the full range of GOR priorities.

15. (SBU) While Bechtel will be fully paid for 2008, Tanczos would make no promises regarding 2009, as there may be a very different post-election political landscape next year. (Comment: Of course, new leadership at both MEF and MOT could also be less stingy about financing for the Motorway. This may be particularly true if the Social Democrats, or PSD, come to power, as it was the former PSD-led government which awarded the original contract to Bechtel in 2004. End comment.) Responding to Bechtel's criticism that the GOR has been slow to expropriate land in the Motorway's path, Barna said Bechtel itself was partly at fault for making late changes in the route. However, frequent legal challenges by landowners over title issues and compensation values are also to blame; Tanczos expressed hope that some changes to the expropriation law recently passed by Parliament would speed up the process.

#### MONEY CHALLENGES COMPOUNDED BY MANAGEMENT WOES

16. (SBU) Tanczos insisted that road building is MOT's highest

BUCHAREST 00000796 002 OF 003

priority, and the Transylvania Motorway to the Hungarian border is just one of multiple projects on the drawing boards. If these are to succeed, the GOR must take better advantage of both EU structural funds and financing from international lending institutions, Tanczos explained. This would allow the GOR to initiate projects with as little as 25 percent of the up-front cost coming out of its own coffers, putting much less strain on the annual budget. The GOR is also attracted to turnkey deals under which contractors would build and operate toll highways through long-term concessions. This tactic will be used on several segments of the long-awaited expressway between Bucharest and Brasov, on which preliminary work began this year. Other priorities include the "European Corridor 4" linking Arad, Timisoara, and Sibiu with Hungary, and a toll highway connecting northern Transylvania to Iasi.

17. (SBU) Asked about the GOR's genuine ability to pursue all these projects in the next few years, however, Tanczos confessed that official timelines for completion are wildly optimistic. Beyond questions of funding, a major culprit is MOT's struggle to recruit and retain qualified contract managers and project engineers, which are in strong demand in Romania's booming economy. Many MOT experts have jumped to the private sector and the Ministry needs a number of new, qualified personnel simply to keep already-initiated road projects on track, he said. Without them, MOT's capacity to manage projects of this magnitude is sorely compromised even if money is plentiful.

#### TRAINS, PLANES, AND BOATS

18. (SBU) Tanczos said MOT is focused on resolving the even more serious management and personnel problems which exist within the railroad network, badly neglected in the post-communist era. A key goal is to rehabilitate the dilapidated track system to support more freight trains so that more cargo currently moved by truck can be taken off congested roads. MOT is also considering asking Germany and Austria for help in completing a feasibility study for a high-speed passenger rail link from Bucharest to Budapest and on to Vienna.

19. (SBU) Bucharest's main international airport, Otopeni, is one of the few in Europe not connected by rail to the city it serves, and

can currently be accessed only by car or bus along one of Bucharest's most congested thoroughfares. According to Tanczos, one possibility under study is to rehabilitate an existing rail line close to the airport and build a station for commuter trains from downtown. This would be much faster and cheaper than the planned 1 billion euro extension of the Bucharest subway system out to the airport, unlikely before 2020. (Comment: Japanese diplomats tell post that Japan had concluded a deal with the previous PSD government to assist with construction of a high-speed rail link to Otopeni, but this deal was discarded when the Liberal PNL government came to power and has not been revisited. End comment.) In terms of airport infrastructure, Otopeni will be gradually expanded and the close-in Baneasa Airport, which currently serves low-cost, charter, and general aviation flights, will likely be closed. Building a new airport to the south of Bucharest has also been mentioned, though Tanczos confessed this is a distant prospect and that improved road and rail access to the existing airport may be a better idea.

¶10. (SBU) With a rising chorus of complaints from businesses that they can no longer ship their products adequately on existing roads, Tanczos said that a real possibility exists to make better use of the Danube River for moving cargo. Environmental NGOs are currently blocking a project to increase navigability on the Romanian portion of the Danube over concerns about potential harm to vulnerable sturgeon populations. Tanczos is hopeful that the GOR can reach a compromise with the NGOs to allow a series of smaller projects, coupled with extensive monitoring, to move forward.

COMMENT

¶11. (SBU) No matter what the outcome of November parliamentary elections, politicians and business leaders in Romania appear to share a broad consensus that improving transportation infrastructure must remain a priority. The American Chamber of Commerce has flagged this issue as a major concern for future economic growth and for Romania's ability to continue to attract foreign investment. As Bechtel's experience here has shown, however, persistent GOR funding and management constraints can prove perilous even for projects already under contract, not to mention those still in the planning stages. Because of this, the widely heralded promise of plentiful EU money to fix Romania's infrastructure remains largely unfulfilled nearly two years after Romania's EU accession. There are more flights to Frankfurt and Brussels now, but for the Bucharest trucker facing a two-day crawl to the Hungarian border along twisting, crumbling, congested two-lane roads, the rest of Europe still seems

BUCHAREST 00000796 003 OF 003

far away indeed. End Comment.

TAUBMAN